CLARK COUNTY

FINANCE COMMITTEE

SECOND QUARTER, 2002

AUGUST 19, 2002

CLARK COUNTY

FINANCE COMMITTEE

INDEX

REGULAR MEETING MINUTES

Clark County Finance Committee Meeting
May 20, 2002
Clark County Juvenile Conference Room #1
1:30 p.m.

Members in Attendance:	Doug Lasher, Chair Greg Kimsey, Secretary Judie Stanton, Commissioner
Others in Attendance:	Bill Barron, County Administrator; John Payne, Cathy Huber Nickerson, Lori Pearce, Treasurer's Office.
Recording:	Kathleen Smithline, Treasurer's Office

The meeting was called to order by Doug Lasher, Chair, at 2:33 p.m. with a quorum present.

- **APPROVAL OF MINUTES**

MOTION was made by Greg Kimsey, seconded by Judie Stanton, and unanimously carried to approve the Minutes of February 14, 2002.

- **APPROVAL OF COUNTY FINANCE REPORT**

Lori Pearce presented an overview of the First-Quarter, 2002, County Finance Report, which included investment strategies, economic and market conditions, and a review of the portfolio as of March 31, 2002. In March, consumer confidence was higher. Unemployment came in at 5.7% in March compared to 5.8% in December. It is anticipated that it will rise to 6.1% by summer. The average maturity of the portfolio stayed equivalent to the fourth quarter of 2001, at approximately nine months, during the first quarter of 2002. Residual balances averaged $33.2 million during the first quarter compared to $37.5 million during 2002. County Pool balances averaged $479 million for the first quarter of 2002 compared to $348 milion during 2001. The annualized quarterly total return for the County Pool came in at 1.75% compared to the custom Treasury total return index of 1.21%.

The County's investment strategy is to invest in the 0 - 2 year maturity sector to maintain an average maturity of the portfolio to eight to nine months in accordance with PFM's recommendations. If yields on short-term money market securities increase above the Washington State Investment Pool's (State Pool) yield, the County will ladder the securities out to one year. When short-term interest rates are declining, the State Pool lags current money interest rates, which continues to make it advantageous to invest short-term money with the State Pool. The County will continue to look for swap opportunities to execute such transactions. **MOTION** was made by Judie Stanton, seconded by Greg Kimsey, and unanimously carried to approve the County Finance Report for First Quarter, 2002.

- **PRESENTATION OF PUBLIC FINANCIAL MANAGEMENT REPORT**

Lori Pearce also presented an overview of the Public Financial Management Report. During the first quarter, the manufacturing sector reflected significant improvement highlighted by Real Gross Domestic Growth, which posted a 5.8% gain in the quarter. The County Pool portfolio had a par value or $485 million as of March 31, 2002, which was a slight decrease from $504 million as of December 31, 2001. Following is a summary of the first quarter's activities and PFM's recommendations: **Asset Diversification**: The asset allocation of the portfolio changed only slightly from last quarter. **Maturity Distribution:** The County's pool portfolio maintained an average maturity of 8.8 months during the quarter. **Credit Quality:** The County maintained the portfolio's low exposure to credit risk. **Liquidity:** As of March 31, 99% of the portfolio assets were categorized in one of PFM's top three liquidity rating categories (1, 2, and 3). **Market Risk**: The Pool remains principally invested in securities maturing under two years as of March 31 classifying 87.6% of the portfolio in the low/average categories of market risk. **Callable Exposure:** The total portfolio's exposure to call risk declined modestly to 8.2% due to several securities being called. PFM recommends that the County maintain current asset mix by purchasing additional U.W. Treasury securities; utilize State LGIP for short-term investments until CP becomes more attractive; minimize interest rate risk by targeting an average maturity of 8-9 months; and consider increasing allocation to callables.

- **COUNTY DEBT STATUS**

Lori Pearce presented an overview of the County's outstanding debt as of March 31, 2002. At the end of the first quarter, 2002, the total outstanding debt of Clark County and it's junior taxing districts totaled approximately $708 million compared to $709 million on December 31, 2001. New issues during the first quarter were: Clark County issued $5,000,000 in a Tax Anticipation Note for a line of credit. There were no pending new issues as of March 31, 2002. Clark County Short-Term Outstanding Debt - $5,000,000 line of credit available from First Independent Bank – total outstanding as of March 31, 2002 was $1,916,582 which includes Planning and Code, Substance Abuse, Children's System of Care, and General Services. An interfund loan from Clark County to the Clark County Fair was $950,000 with an outstanding amount of $539,052.

There being no further business before the committee, upon **motion** by Greg Kimsey, second by Judie Stanton, and unanimously carried, the meeting was adjourned at 1:35 p.m. The next meeting will be on call of the chair.

Submitted by: ________________________
Greg Kimsey, Secretary

Prepared by: _________________________
Kathleen Smithline
Administrative Assistant

SECTION II - EXECUTIVE SUMMARY

This report reflects the outcomes achieved in our investment activities based on the implementation of the May 12, 2000 Investment Policy and Standards. The report provides a retroactive review of the activities occurring during the second quarter, 2002.

During the second quarter of 2002, the average maturity of the portfolio was equivalent to the first quarter of 2002, at approximately nine months. The asset sector distribution of the portfolio changed during the second quarter, with approximately 44% of the portfolio invested in Federal Agencies, 36% invested in money markets, 19% invested in U.S. Treasuries and 1% in municipal bonds. This compares with the first quarter of 2002's asset allocation with 54% of the portfolio invested in Federal Agencies, 34% invested in money markets, 11% invested in U.S. Treasuries and 1% in municipal bonds. At the end of June 2002, the total portfolio was approximately $497 million.

Residual balances averaged $56 million during the second quarter of 2002 compared to a $59.7 million monthly average during 2001. Interest earnings distributed to the County's General Fund in the first half of 2002 were $985,635, compared to $1.7 million for 2001, a decrease of approximately $680,000. This resulted from lower interest rates in 2002 compared to 2001. The first and second quarter of 2001 had an average interest rate of 5.71 while 2002 was 3.63. Interest earnings exceeded our revised projections by approximately $134,000.

County Pool balances averaged $499 million for the first half of 2002, compared to $386 million during 2001. Interest earnings distributed to the County Pool participants for this period were $9 million in 2002 compared to $10.9 million during 2001. The lower interest earnings are due to lower interest rates in 2002 compared to 2001. County funds make up 36% of the County Pool. Other major Pool participants include the Vancouver School District at 23%, the Camas School District at 7%, the Port of Vancouver at 7% and Evergreen School District at 7%.

The annualized quarterly total return for the County Pool came in at 3.14%, compared to the custom Treasury total return index of 2.73%. On a book value return basis, the County Pool rate, on a net basis, yielded 3.43%, compared to the custom Treasury Index with a book value return of 2.00%. The net asset value of the County Pool ended the quarter at 1.00000. An unrealized gain of approximately $1.95 million was distributed to the Clark County Pool participants for the fair market value adjustment at the end of June. In accordance with our investment policy, fair market value adjustments are made four times per year.

Our current strategy is to invest in the 0-2 year maturity sector to maintain an average maturity of the portfolio to eight to nine months in accordance with PFM's recommendations. In addition, should yields on short-term money market securities increase above the Washington State Investment Pool's (State Pool) yield, we will ladder securities out to one year. We recognize that when short-term interest rates are declining, the State Pool lags current money market interest rates, which will continue to make it advantageous to invest short-term money with the State Pool. We will continue to look for swap opportunities, and should these opportunities present themselves we will execute such transactions.

SECTION III - 2002 YEAR-TO-DATE

INVESTMENT ACTIVITY:

For the first half of 2002, County residual principal balances averaged $4 million less than during 2001 on an average monthly basis. Actual 2002 County residual balances were under projections by approximately $3 million. This is due in part to General Fund cash balances declining because of lower property tax revenues.

Date	2001 Residual Balance	2002 Residual Balance	2002 Projected Residual Balance
January	39,714,479	30,856,789	38,000,000
February	36,830,593	31,155,726	35,000,000
March	35,949,803	37,646,261	36,000,000
April	57,998,506	51,177,914	48,000,000
May	121,305,702	117,685,700	110,000,000
June	66,540,866	67,873,104	65,000,000
Average	59,723,325	56,065,916	55,333,333

The revised projected 2002 County interest earnings through second quarter was $850,889. Actual interest earnings distributed to the General Fund through second quarter of 2002 totaled $985,635, as depicted below, which is approximately $135,000 more than the revised projections.

The budget for County interest earnings for the 2001/2002 biennium was originally $6,863,830. In April 2000, when the original budget was created, the economic outlook was much different than what it is currently. In March of 2001, the nation entered a recession. The Fed took aggressive action in 2001 by lowering interest rates 11 times, which brought the Fed funds short-term interest rate to a 40-year low of 1.75%. The biennium budget will be adjusted in May 2002 to reflect a $2.2 million reduction in interest earnings.

Date	2001 Interest Earnings	2002 Interest Earnings	2002 Projected Interest Earnings
January	207,327	107,662	122,708
February	184,229	97,169	95,278
March	179,631	115,274	100,750
April	276,363	151,923	120,000
May	534,965	317,493	260,486
June	282,538	196,114	151,667
Total	1,665,053	985,635	850,889

As shown below, County Pool principal balances averaged $498 million for 2002, compared to $386 million during 2001, approximately 29% higher. This is due to various districts issuing bonds.

Date	2001 Pool Average Balance	2002 Pool Average Balance
January	356,545,966	486,563,440
February	349,605,348	476,757,242
March	338,990,190	473,722,986
April	359,569,641	481,162,641
May	477,334,427	564,699,682
June	438,945,286	509,155,187

Average	386,831,810	498,676,863

The table below reflects County Pool earnings were $9 million in 2002, compared to $11 million during 2001, resulting in decreased earnings of approximately 18 percent. This is due to the lower interest rate environment in 2002 compared to 2001 during the first two quarters. The Federal government lowered the Federal interest rate 11 times during 2001.

Date	2001 Pool Interest Earnings	2002 Pool Interest Earnings
January	1,859,734	1,685,793
February	1,743,303	1,482,990
March	1,689,390	1,449,122
April	1,711,739	1,424,935
May	2,099,382	1,520,815
June	1,863,252	1,471,224
Total	10,966,800	9,034,879

Figure One shows the major participants in the Clark County Investment Pool for the second quarter of 2002. As of June 30, 2002, County funds made up 36% of the Pool, Vancouver School District – 23%, Camas School District – 7%, Port of Vancouver – 7%, and the Evergreen School District – 7%.

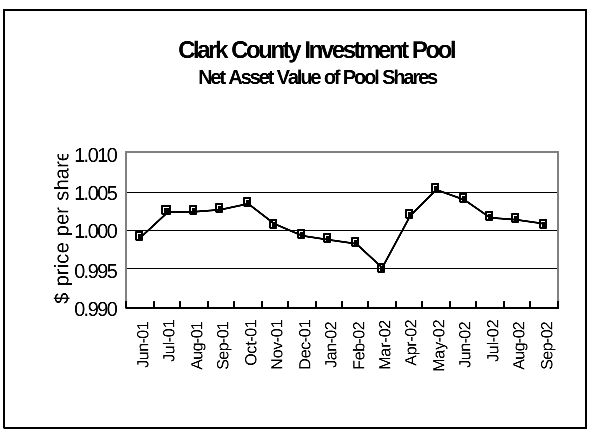


Figure 1

Figure Two shows month-end General Fund cash balances beginning with January 2001 through June 2002. As of the end of June 2002, cash balances in the General Fund decreased below 2001 levels by an average of approximately $6.5 million on a monthly basis.   This is due primarily to the effects of the recent tax initiatives. The cash balances of the general fund will continue to decline due to lower property tax revenues

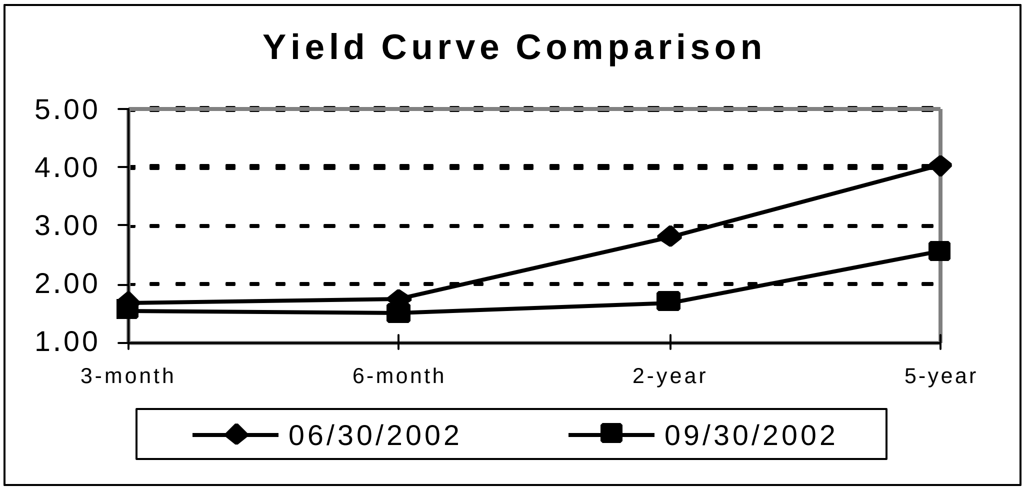


Figure 2

SECTION IV - QUARTERLY ACTIVITY

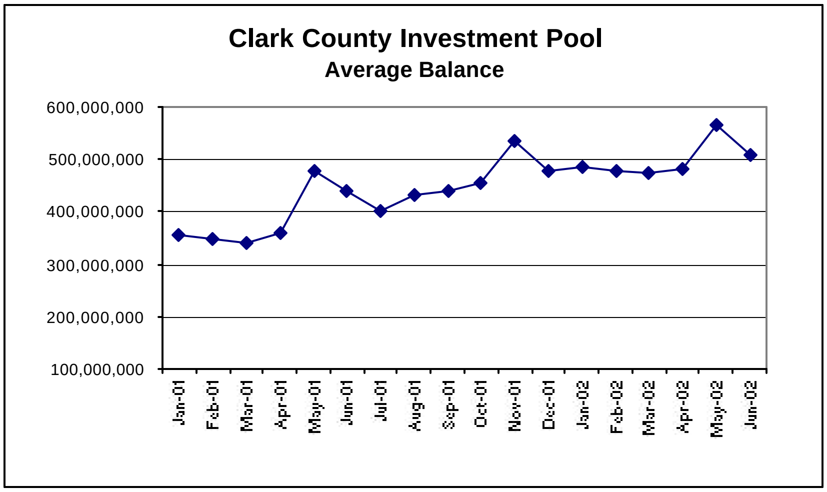


Figure 3

Figure Three reflects the average principal balances being maintained within the Pool from January 2001 to June 2002. For the second quarter of 2002, the average principal balance increased above 2001 levels by $279 million. This is due in part to districts having large bond issues still in the pool.

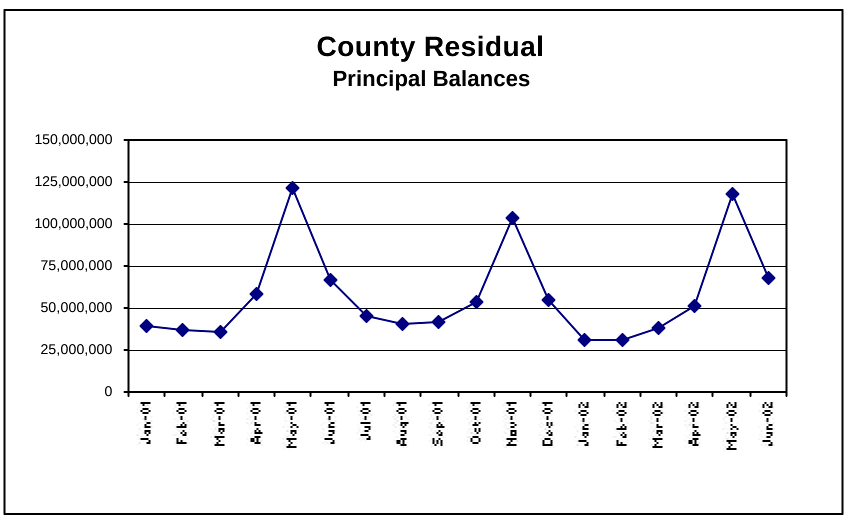


Figure 4

Figure Four reflects the actual monthly residual principal balances managed by the County for 2001 and 2002. Residual balances for second quarter decreased below 2001 levels by an average of $3 million per month.

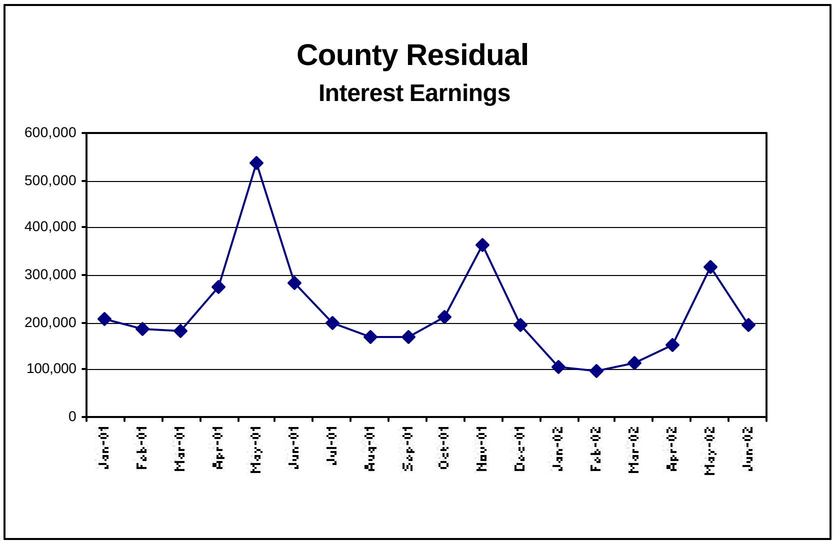


Figure 5

Figure Five shows interest earnings distributed each month to the County's General fund during 2001 and 2002. During the second quarter of 2002, interest earnings averaged $142,000 less per month than during the same period in 2001. This is due to lower residual balances and lower interest rates during the second quarter. On an average monthly basis, $364,000 was allocated to the General fund during first quarter of 2001. For second quarter of 2002, an average of $222,000 was distributed to the General fund per month.

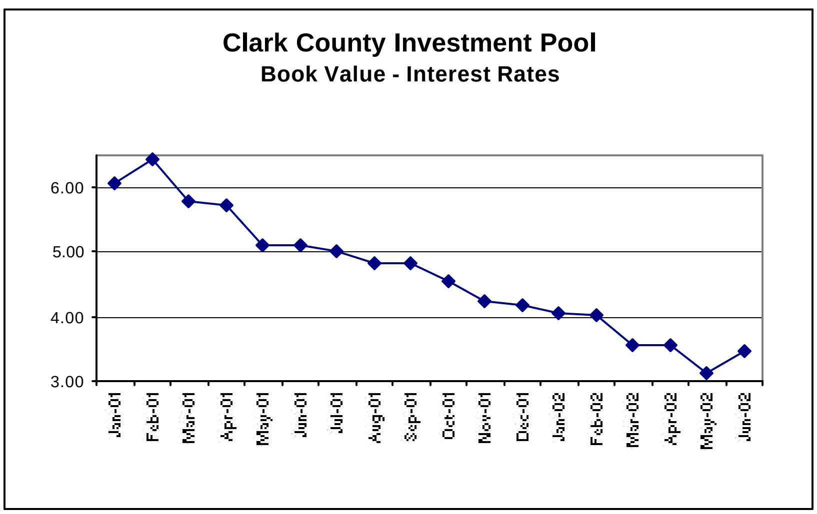


Figure 6

Figure Six shows the County Pool interest rates for 2001 and 2002. The County Pool's book value, gross interest rate at the end of June 2002 was 3.47%, compared to 5.90% on June 30, 2001.

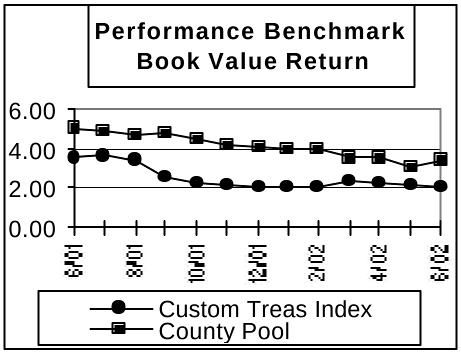


Figure 7(a)

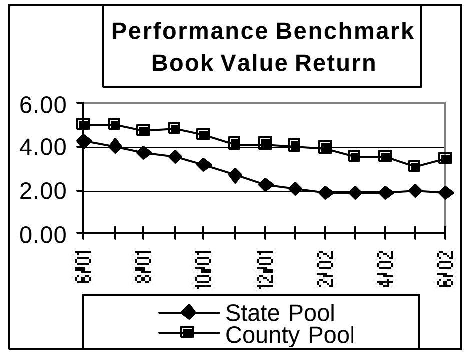


Figure 7(b)

Figures 7 (a) and (b) compare performance on a book value return basis. The County Pool's interest rate is expressed as the net interest rate (the gross rate less the investment fee). The book value return of a portfolio measures the yield based on the yield of the securities at the time the securities are purchased. These performance benchmarks consist of a composite Treasury Index with an average maturity of nine months and the Washington State Local Government Investment Pool (LGIP) with an average maturity of approximately two months. The Clark County Investment Pool has an average maturity of approximately nine months. The Treasury Index and the LGIP closely track current interest rates. At the end of the second quarter, the Clark County Pool's net rate, on a book value return basis was 3.43 %, the Treasury Index was 2.00%, and the State Pool's net rate was 1.87%.

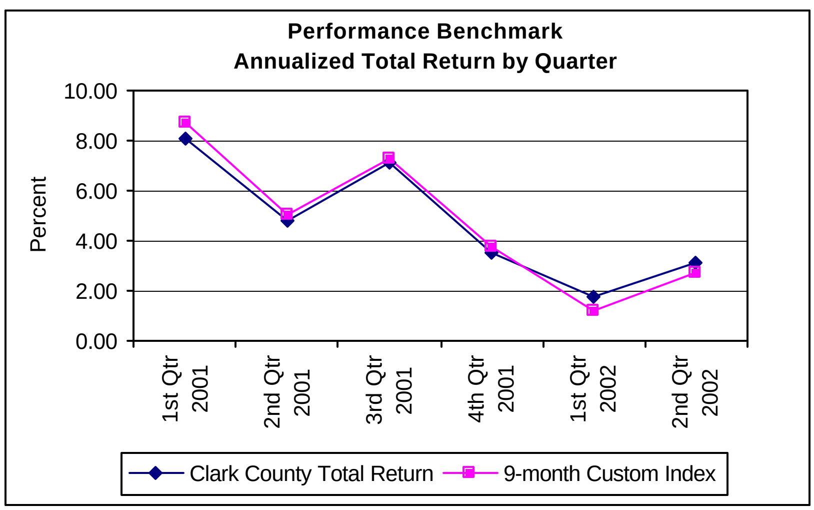


Figure 8

Figure Eight compares performance on a total return basis. Total return measures the market value increase or decrease in the value of the portfolio over a given period of time, and the interest earnings associated with the securities. The customized total return index consists of two Merrill Lynch U.S. Treasury Securities maturing from six months to one year. The annualized second quarter return for 2002 for the County Pool was 3.14% and the Treasury Index was 2.73%. Wide swings in return will reflect the extreme volatility in the investment markets.

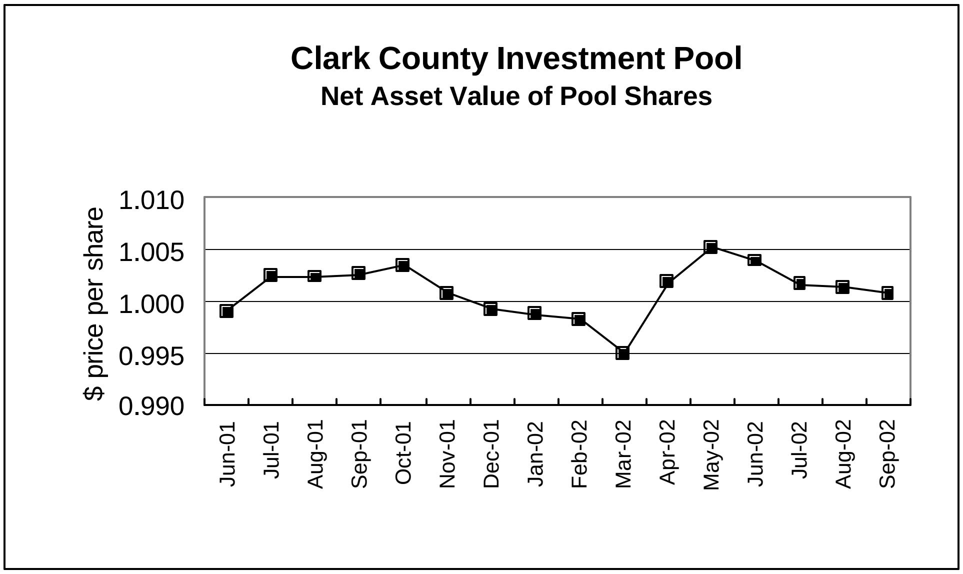


Figure 9

Figure Nine shows the market value based net asset value (NAV) of the Pool portfolio. As of June 2002, the NAV was 1.00000. GASB Statement 31 requires that External Investment Pools report all investments at fair market value, if the average maturity of the Pool exceeds 90 days. On June 30, 2002, the Treasurer's Office posted approximately $1.95 million in unrealized gains to the County Pool. The next adjustment for fair market value will occur in August 2002.

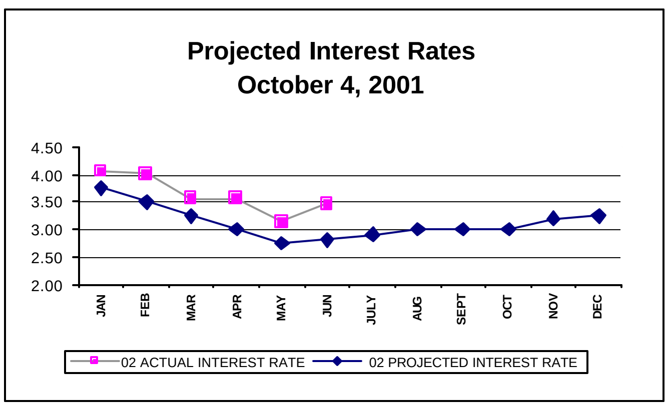


Figure 10

Figure Ten shows the projected County Pool interest rates for 2002 compared to the second quarter of 2002.

SECTION V - INVESTMENT STRATEGY

The following table shows the percentage distribution of the Clark County Pool maturity periods. As the table indicates, during 2001 emphasis was placed on purchasing securities in the 0 -1 year maturity sector. During the second quarter of 2002, investments were purchased in the 1-2 year sector to keep the average maturity within the eight to nine month range.

Period	0 - 1 year	1 – 2 years	2 - 5 years
1st quarter, 2001	65%	18%	17%
2nd quarter, 2001	64%	20%	16%
3rd quarter, 2001	74%	13%	12%
4th quarter, 2001	71%	16%	13%
1st quarter, 2002	60%	27%	12%
2nd quarter, 2002	56%	42%	2%

During the third quarter of 2002, we plan to invest in the 0-2 year maturity range to maintain the portfolio's average maturity in the eight to nine month range. We are going to continually monitor our investment strategy to be proactive as economic conditions fluctuate.

In addition, if yields on short-term money market securities increase above the State Pool's yield, we plan to ladder securities out to one year.

During the second quarter of 2002, 1-2 year securities were purchased to target an average maturity of eight to nine months. As of June 30th, the Clark County Investment Portfolio has produced $3.6 million in aggregate unrealized gains on a fair market value basis. The next time unrealized gains/losses will be posted is August 31, 2002. The following is a breakdown by year reflecting the total unrealized gains/losses.

Year	Unrealized gain/(loss)
1998	566,583
1999	(2,563,593)
2000	4,038,403
2001	2,072,065
2002	(541,538)
Cumulative	3,571,920

The first quarter, 2002 report issued by Public Financial Management, Inc. (PFM) recommended the following sector distributions to shorten the Clark County Investment Pool to 8-9 month maturity.

Investment Sector	Recommended Average Maturity	Current Average Maturity	Recommended % of Portfolio	Current % of Portfolio
US Treasury Notes	9 months-1.75 years	1 year 4 months	5% - 15%	19 %
Federal Agency Notes/Disc. Notes	6 months – 2 years	1 year 2 months	50% - 75%	44%
Municipal Obligations	0 months – 2 years	1 day	0% - 5%	1%
Money Markets - State Pool, CP, CD's & BA's	1 – 60 days	1 day	20% - 40%	36%
Aggregate Avg. Maturity	8 - 9 months	9.3 months		

During the second quarter of 2002, the percentages changed by an eight-percent increase in US Treasury Notes, a ten-percent decrease in Federal Agencies and a two-percent increase in the money market sector. The Municipal Obligations percentage remained the same. More US Treasury Notes were purchased to take advantage of the small spread to Federal Agencies. The average maturity increased slightly due to investing in longer-term securities.

SECTION VI - ECONOMIC/MARKET CONDITIONS

U.S. inflation stayed low in June as automakers and clothing retailers cut prices to lure shoppers in a sluggish economy. The 0.1 percent rise in the consumer price index (CPI) for June was led by tobacco, gasoline and medical care. Auto prices have fallen for six consecutive months, helped by incentives at General Motors Corp. and other makers trying to increase sales as economic growth slows in the second quarter. So far this year, the CPI is running at a 2.7 percent annual pace, compared with a 3.7 percent rate in the same period last year.

The PPI fell 0.1% and the core PPI dropped 0.3%, which were larger declines than expected. The core PPI was held down by large declines in car and truck prices. Compared to a year ago, the PPI was 01.1% compared to 02.1% in the year ended June.

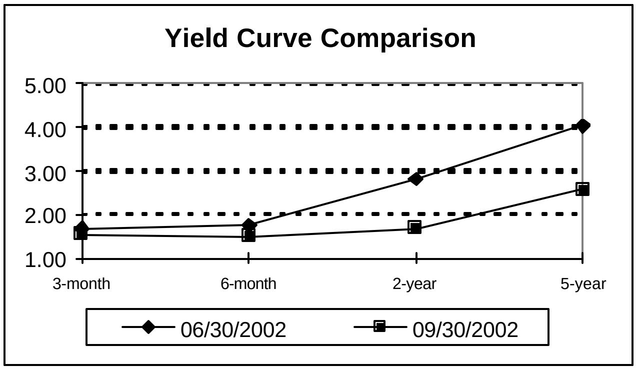
The revised GDP for first quarter came in at 5.0%. It is anticipated that second quarter will come in at 1.1%. Given the slowdown, many economists believe the Fed will leave short-term interest rates at the 40-year low at its next meeting on August 13. The Fed has held rates steady all year long.

The U.S. Labor Department stated that payrolls rose by 36,000 last month compared with the 75,000 forecast. The June unemployment rate rose to 5.9 percent from 5.8 percent in May, as companies hired half the number of workers expected. Job creation is important since consumers account for two-thirds of the economy, and if spending slows, the recovery will falter. The number of unemployed totals 8.4 million compared with 6.5 million a year earlier, when the recession was three months old.

The ISM (formerly NAPM) survey of factory purchasing managers was 56.2 in June. An index above 50 signifies growth in manufacturing, while a figure below that shows contraction. Economists track the ISM measure because it offers an early reading on the health of the manufacturing sector. Its index is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. Manufacturers have been the hardest hit by the downturn in the economy, which officially slid into a recession in March 2001.

The Commerce Department reported that construction spending declined by 2.2 percent in June from the previous month, pushing the value of construction projects to $820.8 billion, the lowest level since August 2000. Analysts had expected a 0.3 percent rise in construction activity. The weakness was led by spending cuts on commercial projects and government spending on industrial complexes, highways, schools and hospitals.

On June 30, 2002 the 3-month T-bill yielded 1.680% compared to 1.782% on March 31, 2002. The yield curve begins to shift upward after the 6-month sector.



SECTION VII - PORTFOLIO

Exhibit One shows the make up of the entire portfolio at the end of the second quarter of 2002. This exhibit is used to monitor compliance with the Investment Policy as far as the diversification of securities held and the percentage each sector makes up of the total portfolio. All percentages are consistent with the current policy.

Exhibit Two shows the complete portfolio listings as of the end of the quarter. This report shows the book value, the par value, and the market value of the portfolio as of June 30, 2002.

Exhibit Three shows the liquidity of the entire portfolio. All percentages are consistent with the current policy.

Exhibit Four reflects the percentage of securities purchased from each issuer relative to the entire portfolio. On June 30, 2002, the average maturity was nine months. All the percentages are consistent with the current policy.

Exhibit Five shows all investment purchases and maturities from April 1, 2002 through June 30, 2002.

Exhibit Six shows the make up of the Clark County Investment Pool at the end of the second quarter of 2002. This exhibit is used to monitor compliance with the Investment Policy as far as the diversification of securities held and the percentage each makes up of the total portfolio. On June 30, 2002 the average term of the Pool was nine months. All percentages are consistent with the current policy.

Exhibit Seven shows the portfolio listings of the Clark County Investment Pool at the end of the quarter. This report contains the book value, the par value, and the market value as of June 30, 2002.

Exhibit Eight shows the liquidity of the Clark County Investment Pool. All percentages are consistent with the current policy.

Exhibit Nine reflects the percentage of securities purchased from each issuer for the Clark County Investment Pool. All percentages are consistent with the current policy.

Exhibit Ten is a comparison of the Clark County Investment Pool to the Washington State Pool.